

**TOWN OF HAMPSTEAD, MARYLAND  
FINANCIAL STATEMENTS  
JUNE 30, 2016**

**TOWN OF HAMPSTEAD**

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# Lindsey + Associates

606 Baltimore Avenue  
Suite 101  
Towson, MD 21204

410.825.1994 phone  
410.825.1997 fax

[www.acpalim.com](http://www.acpalim.com)

## **Independent Auditor's Report**

Honorable Mayor, Members of the Town Council, and Town Manager  
Town of Hampstead, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Hampstead, Maryland, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Hampstead, Maryland, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

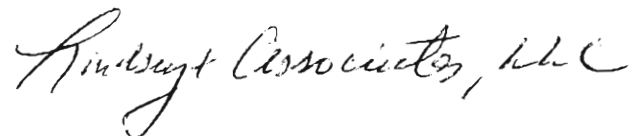
### *Emphasis of Matter*

As discussed in Note 13, in 2015, in *Comptroller of the Treasury of Maryland v. Wynne*, the Supreme Court invalidated a portion of Maryland's personal income tax scheme after determining that it inherently burdened the earnings of individuals who resided in one state but earned income in another. As a result of this ruling, the Town has recognized a noncurrent liability due to the State. Our opinion is not modified with respect to this matter.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the pension-related supplementary information, and the budgetary comparison information on pages 3 through 10, 45, and 46, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

October 10, 2016



**TOWN OF HAMPSTEAD, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

Our discussion and analysis of the financial performance of the Town of Hampstead provides an overview of the Town's financial activities for the year ended June 30, 2016. Please read it in conjunction with the transmittal letter and the Town's financial statements.

**Financial Highlights**

**General Government:**

- Municipal property tax rates increased by 2¢ and business personal property tax rates increased by 5¢ in fiscal year 2016. Continued residential, industrial and commercial development could result in increased property and business property tax revenues in fiscal year 2017. The admissions & amusement tax rate increased by 1¢ in fiscal year 2016.
- The largest capital expense in general government for 2016 was road paving in the amount of \$297,961. The Town expects to do further paving in 2017 utilizing Highway User Revenues from the State of Maryland as well as utilizing Town funds.
- The Town of Hampstead, in conjunction with the Town of Manchester and others, filed an appeal with the Maryland State Board of Education to overturn the decision made by the Carroll County Board of Education to close North Carroll High School. Various fund raisers and donations totaling \$32,531 were used towards the appeal legal fees. Town of Hampstead and Town of Manchester each contributed \$20,272 toward the fees. Additional legal fees are expected in fiscal year 2017 as the Town and others move forward with the appeal to the Carroll County Circuit Court.
- There were no additions to staff in fiscal year 2016.

**Water:**

- Water rates increased five percent in 2016. Continued rate increases are anticipated to fund needed infrastructure projects. The fiscal year 2017 budget calls for an eight percent increase in water rates.
- Expenses related to the Main Street Water Main Replacement were \$3,032,887 which was the largest capital expense in 2016. The Town issued a \$2.9 million bond in fiscal year 2016 for this project, making monthly draws on the bond as the project progressed. As of June 30, 2016 the bond draws totaled \$2,285,676 leaving a balance of \$614,324 that will be drawn in fiscal year 2017.
- The Town received a \$55,500 grant through FEMA and purchased two generators totaling \$76,947 to help maintain the water system's operations during power outages.
- Expenses related to the future North Carroll Farms V (Oakmont Overlook) pump house were \$77,178. The Town has budgeted \$259,000 for fiscal year 2017 for completion of this project.
- Despite residential, industrial and commercial development within the Town, the Town may not see an increase in water revenue for fiscal year 17 because the closing of North Carroll High School will decrease water usage.

**TOWN OF HAMPSTEAD, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Using This Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities are government-wide statements that provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements report the Town's operation in more detail than the government-wide statements by providing information about the Town's most significant funds and individual parts.

**Reporting the Town as a Whole**

**The Statement of Net Position and the Statement of Activities**

One of the most important questions asked about the Town's finances is, "Is the Town as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities and all deferred outflows and inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report changes in the Town's net position. You can think of the Town's *net* position (the difference between assets plus deferred outflows and liabilities plus deferred inflows) as one way to measure the Town's financial health or position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Town's property tax base and the condition of the roads and water system to assess the overall health of the Town.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- Governmental activities – Most of the Town's basic services are reported here, including the police, general administration, public works, and parks. Taxes, fees, fines, and state and federal grants finance most of these activities.
- Business-type activities – The Town's water system is reported here, and fees are charged to customers to cover the cost of the services provided.

**TOWN OF HAMPSTEAD, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Reporting the Town's Most Significant Funds**

**Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds-not the Town as a whole. The Town's two kinds of funds, governmental and proprietary, use different accounting approaches.

- Government funds – Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- Proprietary funds – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash-flows.

**The Town as a Whole**

**Governmental Activities**

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

**TOWN OF HAMPSTEAD, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

Some of the individual line item revenues reported for each function are:

General Government	Building Permit Fees, Rental Housing Licenses, Public Works Agreement Fees, Certain Fees & Licenses, Penalties
Public Safety	Federal Grants, State Grants, Fines, Impact Fees, Report Fees
Public Works	Highway User Revenues, County Overlapping Services, Grading Permit Fees
Recreation & Culture	State Grants, Impact Fees

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted to a specific purpose.



**TOWN OF HAMPSTEAD, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Governmental-Wide Financial Information**

The following is selected information as of June 30, 2016 and for the previous year ended provided for comparison purposes.

	2016			2015		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current assets	\$ 3,898,669	\$ (1,153,412)	\$ 2,745,257	\$ 3,810,500	\$ (879,931)	\$ 2,930,569
Noncurrent assets	5,689,996	8,295,235	13,985,231	5,792,290	5,279,561	11,071,851
Total assets	9,588,665	7,141,823	16,730,488	9,602,790	4,399,630	14,002,420
Deferred outflows of resources	203,751	-	203,751	101,464	-	101,464
Total assets and deferred outflows of resources	9,792,416	7,141,823	16,934,239	9,704,254	4,399,630	14,103,884
Current liabilities	170,749	387,797	558,546	168,355	50,147	218,502
Long-term liabilities	1,606,819	2,438,592	4,045,411	1,602,953	252,739	1,855,692
Total liabilities	1,777,568	2,826,389	4,603,957	1,771,308	302,886	2,074,194
Deferred inflows of resources	68,453	-	68,453	84,201	-	84,201
Net position						
Net investment in capital assets	4,901,630	5,526,907	10,428,537	4,910,447	4,739,950	9,650,397
Restricted	-	-	-	-	-	-
Unrestricted	3,044,765	(1,211,473)	1,833,292	2,938,298	(643,206)	2,295,092
Total net position	7,946,395	4,315,434	12,261,829	7,848,745	4,096,744	11,945,489
Total liabilities, deferred inflows of resources and net position	9,792,416	7,141,823	16,934,239	9,704,254	4,399,630	14,103,884
Program revenues						
Charges for services	63,175	1,037,959	1,101,134	26,658	898,596	925,254
Grants and contributions	643,239	-	643,239	602,517	-	602,517
General revenues						
Income taxes	832,939	-	832,939	742,221	-	742,221
Property taxes	1,299,575	-	1,299,575	1,147,839	-	1,147,839
Total general revenues	2,488,795	61,536	2,550,331	2,157,389	10,873	2,168,262
Total revenues and transfers	3,195,209	1,099,495	4,294,704	2,786,564	909,469	3,696,033
Expenses						
General government	586,933	-	586,933	413,077	-	413,077
Public safety	1,028,066	-	1,028,066	951,720	-	951,720
Public works	1,284,523	-	1,284,523	1,197,630	-	1,197,630
Recreation and culture	173,194	-	173,194	169,834	-	169,834
Transfers	-	-	-	-	-	-
Contingency loss	(5,806)	-	(5,806)	-	-	-
Total expenses and transfers	3,091,753	880,805	3,972,558	2,854,242	798,176	3,652,418
Change in net position	97,650	218,690	316,340	(67,678)	111,293	43,615
Net position, beginning of year, restated	7,848,745	4,096,744	11,945,489	7,916,423	3,985,451	11,901,874
Net position end of year	7,946,395	4,315,434	12,261,829	7,848,745	4,096,744	11,945,489

**TOWN OF HAMPSTEAD, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Business-type Activities**

Business-type activities consist of the water department. The water department shows net operating income partially as a result of impact fees being charged for future capital expense.

**The Town's Funds**

The following schedule presents a summary of general revenue and expenses for the fiscal year ended June 30, 2016 and the amount of increases and decreases in relation to the prior year.

	FY2016 Amount	Percent of Total	Increase (Decrease) From FY15	FY2015 Amount
<b>Revenues</b>				
Taxes	\$ 2,168,621	68%	\$ 250,082	\$ 1,918,539
Intergovernmental	643,239	20%	40,722	602,517
Charges for services	63,175	2%	36,517	26,658
Fines, licenses and permits	60,009	2%	5,063	54,946
Interest income	28,477	1%	(272)	28,749
Miscellaneous	231,688	7%	76,533	155,155
<b>TOTAL REVENUE</b>	<b>\$ 3,195,209</b>	<b>100%</b>	<b>\$ 408,645</b>	<b>\$ 2,786,564</b>
<b>Expenditures</b>				
General government	\$ 578,027	19%	\$ 72,452	\$ 505,575
Public safety	987,018	31%	105,761	881,257
Public works	893,386	29%	131,356	762,030
Recreation and culture	108,122	3%	8,170	99,952
Capital outlays	398,081	13%	43,344	354,737
Debt service	143,355	5%	(1,418)	144,773
<b>TOTAL EXPENDITURES</b>	<b>\$ 3,107,989</b>	<b>100%</b>	<b>\$ 359,665</b>	<b>\$ 2,748,324</b>

The increase in Taxes is a result of the increase in real estate, business personal property, and admissions & amusements tax rates (see Financial Highlights – General Government above). The increase in Intergovernmental Revenue includes a one-time grant increase in Highway Users Funds from the Maryland Department of Transportation. The increase in Miscellaneous Revenue includes the addition of a new wireless cellular tower rental, as well as a new contract for an existing wireless carrier. The increase in General Government expenditures includes the North Carroll High School closure appeal legal fees, however more than 60% of these fees were offset by donations the Town received (the donations are also a part of the Miscellaneous Revenue increase).

**TOWN OF HAMPSTEAD, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

The increase in Public Safety includes the purchase of a license tag reader and a new K-9 dog, both of which were reimbursed through grant funds. Salary expenses were higher in FY 2016 due to vacancies in FY 2015 and due to a new officer position that was added at the end of FY 2015. The majority of the increase in Public Works expenditures was due to the January 2016 blizzard. The Town will see a FEMA reimbursement in FY 2017 of approximately \$39,000 towards the Town's \$87,000 snow removal expenses. The Public Works increase also includes higher salary expenses due to FY 2015 vacancies and a new position that was added in late FY 2015.

**General Fund Budgetary Highlights**

There were some budget revisions in fiscal year 2016. Refer to page 46 of this report for a detailed analysis of the original budget, final budget, and actual revenues and expenditures for the governmental funds.

**Capital Asset and Debt Administration**

**Capital Assets**

Major capital additions during 2016 included road paving, Main Street water main replacement, and a new pump house at N. Carroll Farms V (Oakmont Overlook). The purchase of two portable pump house generators was partially funded by a FEMA grant.

The following table lists the Town's additions during the year.

**Capital Expenditures Per Fund**

<b>General Fund</b>		<b>Business-Type Activities</b>	
PW Garage Renovation (Old Salt Bldg)	\$ 26,600	Main St. Water Main Replacement	\$ 3,032,887
PW Salt & Material Storage Facility	30,385	Water Meters	29,988
Police K-9 Vehicle	43,135	N Carroll Farms V Pump House	77,178
Road Paving	297,961	Pump House Generator Upgrades	76,947
		SCADA System Upgrades	20,928
Subtotal	<u>398,081</u>		<u>3,237,928</u>
Disposals	<u>-</u>		<u>-</u>
Change in Capital Assets	<u><u>\$ 398,081</u></u>		<u><u>\$ 3,237,928</u></u>

**TOWN OF HAMPSTEAD, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Debt**

At year end, the Town had \$3,843,799 in outstanding notes as compared to \$1,109,846 last year. This amount consists of notes on the North Water Tower, the Police Station, Paving Improvements, and a new note (\$2,900,000) on the Main Street Water Main Replacement. The only other continuing obligation of the Town is compensated absences.

**Economic Factors and Next Year's Budgets and Rates**

General revenues are expected to be unstable as a result of reliance on the State for funding and increasing Federal and State regulations. Water expenses are expected to increase as a result of water resource development and increasing Federal and State regulations.

**Contacting the Town's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Manager at 1034 S. Carroll Street, Hampstead, Maryland 21074.

**TOWN OF HAMPSTEAD, MARYLAND**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 1,675,537	\$ -	\$ 1,675,537
Cash and cash equivalents - restricted	5,250	-	5,250
Investments	731,998	-	731,998
Amounts due from other governments	28,949	-	28,949
Other accounts receivable, net of allowances	-	222,582	222,582
Prepaid expenses	65,422	15,519	80,941
Due from other funds	1,391,513	(1,391,513)	-
Total Current Assets	<u>3,898,669</u>	<u>(1,153,412)</u>	<u>2,745,257</u>
Noncurrent Assets			
Due from other funds	(257,155)	257,155	-
Cash and cash equivalents - restricted	-	-	-
Note receivable	327,219	-	327,219
Net capital assets	5,619,932	8,038,080	13,658,012
Total Noncurrent Assets	<u>5,689,996</u>	<u>8,295,235</u>	<u>13,985,231</u>
<b>TOTAL ASSETS</b>	<u>9,588,665</u>	<u>7,141,823</u>	<u>16,730,488</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>203,751</u>	<u>-</u>	<u>203,751</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 9,792,416</u></u>	<u><u>\$ 7,141,823</u></u>	<u><u>\$ 16,934,239</u></u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable and accrued expenses	\$ 38,928	\$ 286,983	\$ 325,911
Amounts held in escrow and deposits	3,061	-	3,061
Unearned revenue	2,950	-	2,950
Current portion of long-term debt	125,810	100,814	226,624
Total Current Liabilities	<u>170,749</u>	<u>387,797</u>	<u>558,546</u>
Noncurrent Liabilities			
Compensated absences	130,854	28,233	159,087
Contingency loss (Note 13)	5,806	-	5,806
Net pension liability	877,667	-	877,667
Loans payable - long-term	592,492	2,410,359	3,002,851
Total Noncurrent Liabilities	<u>1,606,819</u>	<u>2,438,592</u>	<u>4,045,411</u>
<b>TOTAL LIABILITIES</b>	<u>1,777,568</u>	<u>2,826,389</u>	<u>4,603,957</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>68,453</u>	<u>-</u>	<u>68,453</u>
<b>NET POSITION</b>			
Net investment in capital assets	4,901,630	5,526,907	10,428,537
Restricted	-	-	-
Unrestricted	3,044,765	(1,211,473)	1,833,292
<b>TOTAL NET POSITION</b>	<u>7,946,395</u>	<u>4,315,434</u>	<u>12,261,829</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u><u>\$ 9,792,416</u></u>	<u><u>\$ 7,141,823</u></u>	<u><u>\$ 16,934,239</u></u>

See accompanying notes to financial statements.

**TOWN OF HAMPSTEAD, MARYLAND  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Direct Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government	
							Business-type Activities	Total
<b>Primary Government</b>								
Governmental Activities								
General government	\$ 586,933	\$ 16,207	\$ 44,918	\$ -	\$ -	\$ (558,222)	\$ -	\$ (558,222)
Public safety	1,028,066	2,830	11,535	114,494	-	(904,867)	-	(904,867)
Public works	1,284,523	-	4,250	-	527,727	(752,546)	-	(752,546)
Recreation and culture	173,194	-	2,472	-	1,018	(169,704)	-	(169,704)
Interest expense	19,037	(19,037)	-	-	-	-	-	-
Total Governmental Activities	<u>3,091,753</u>	<u>-</u>	<u>63,175</u>	<u>114,494</u>	<u>528,745</u>	<u>(2,385,339)</u>	<u>-</u>	<u>(2,385,339)</u>
<b>Business-Type Activities</b>								
Water	880,805	-	1,037,959	-	-	-	157,154	157,154
Total Business-Type Activities	<u>880,805</u>	<u>-</u>	<u>1,037,959</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>157,154</u>	<u>157,154</u>
<b>Total Primary Government</b>	<u>\$ 3,972,558</u>	<u>\$ -</u>	<u>\$ 1,101,134</u>	<u>\$ 114,494</u>	<u>\$ 528,745</u>	<u>\$ (2,385,339)</u>	<u>\$ 157,154</u>	<u>\$ (2,228,185)</u>
<b>General revenues</b>								
Taxes								
Income taxes						832,939	-	832,939
Property taxes						1,299,575	-	1,299,575
Other taxes						36,107	-	36,107
Licenses and permits						60,009	-	60,009
Interest and investment earnings						28,477	-	28,477
Miscellaneous						231,688	61,536	293,224
Total General Revenues						<u>2,488,795</u>	<u>61,536</u>	<u>2,550,331</u>
Contingency loss (Note 13)						(5,806)	-	(5,806)
Change in Net Position						97,650	218,690	316,340
Net Position, beginning of year						7,848,745	4,096,744	11,945,489
Net Position, end of year						<u>\$ 7,946,395</u>	<u>\$ 4,315,434</u>	<u>\$ 12,261,829</u>

See accompanying notes to financial statements.

RECONCILIATION OF TOTAL GOVERNMENTAL  
FUND BALANCE TO NET POSITION OF  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2016

See accompanying notes to financial statements.

**TOWN OF HAMPSTEAD, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Total Governmental Funds
<b>REVENUES</b>		
Taxes	\$ 2,168,621	\$ 2,168,621
Intergovernmental	643,239	643,239
Charges for services	63,175	63,175
Fines, licenses, permits	60,009	60,009
Interest income	28,477	28,477
Miscellaneous	231,688	231,688
<b>Total Revenues</b>	<b>3,195,209</b>	<b>3,195,209</b>
<b>EXPENDITURES</b>		
Current Operations		
General government	578,027	578,027
Public safety	987,018	987,018
Public works	893,386	893,386
Recreation and culture	108,122	108,122
Capital outlays	398,081	398,081
Debt Service		
Principal	124,318	124,318
Interest	19,037	19,037
<b>Total Expenditures</b>	<b>3,107,989</b>	<b>3,107,989</b>
<b>Excess of revenues over (under) expenditures and other financing uses</b>	<b>87,220</b>	<b>87,220</b>
<b>Other financing sources (uses)</b>		
Transfers in (out)	-	-
Proceeds from long-term debt	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses</b>	<b>87,220</b>	<b>87,220</b>
<b>Fund balance, beginning of year</b>	<b>3,766,510</b>	<b>3,766,510</b>
<b>Fund balance, end of year</b>	<b>\$ 3,853,730</b>	<b>\$ 3,853,730</b>

<b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016</b>	<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 87,220</b>
Contingency loss pertains to a long-term liability and is not reported in the funds. See Note 13.		(5,806)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		(133,140)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		124,318
Difference in accounting for compensated absences between the full accrual basis and the modified accrual basis.		15,422
Pension expense pertaining to the net pension liability is not reported in the funds.		9,636
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>97,650</b>

See accompanying notes to financial statements.



**TOWN OF HAMPSTEAD, MARYLAND**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2016**

	Business-Type Activities	
	Water	Total
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable, net of allowances	222,582	222,582
Prepaid expenses	15,519	15,519
Total Current Assets	<u>238,101</u>	<u>238,101</u>
Noncurrent Assets		
Due from other funds	257,155	257,155
Net capital assets	8,038,080	8,038,080
Total Noncurrent Assets	<u>8,295,235</u>	<u>8,295,235</u>
<b>TOTAL ASSETS</b>	<u>8,533,336</u>	<u>8,533,336</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 8,533,336</u>	<u>\$ 8,533,336</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 278,798	\$ 278,798
Accrued expenses	8,185	8,185
Current portion of long-term debt	100,814	100,814
Due to other funds	1,391,513	1,391,513
Total Current Liabilities	<u>1,779,310</u>	<u>1,779,310</u>
Noncurrent Liabilities		
Compensated absences	28,233	28,233
Long-term debt, net of current liabilities	2,410,359	2,410,359
Total Noncurrent Liabilities	<u>2,438,592</u>	<u>2,438,592</u>
<b>TOTAL LIABILITIES</b>	<u>4,217,902</u>	<u>4,217,902</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	5,526,907	5,526,907
Restricted	-	-
Unrestricted	(1,211,473)	(1,211,473)
<b>TOTAL NET POSITION</b>	<u>4,315,434</u>	<u>4,315,434</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 8,533,336</u>	<u>\$ 8,533,336</u>

See accompanying notes to financial statements.

**TOWN OF HAMPSTEAD, MARYLAND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities	
	Water Fund	Total
<b>Operating Revenues</b>		
Charges for services	\$ 1,037,959	\$ 1,037,959
Miscellaneous	61,536	61,536
<b>Total Operating Revenues</b>	<u>1,099,495</u>	<u>1,099,495</u>
<b>Operating Expenses</b>		
Personnel services	352,428	352,428
Operations and maintenance	279,914	279,914
Depreciation	207,024	207,024
<b>Total Operating Expenses</b>	<u>839,366</u>	<u>839,366</u>
<b>Operating Income</b>	<u>260,129</u>	<u>260,129</u>
<b>Non-operating Revenues (Expenses)</b>		
Loss on disposal of capital assets	-	-
Debt Service		
Interest	(41,439)	(41,439)
<b>Net Non-operating Revenues (Expenses)</b>	<u>(41,439)</u>	<u>(41,439)</u>
<b>Income Before Contributions and Transfers</b>	218,690	218,690
<b>Capital contributions</b>	-	-
<b>Transfers (to) from other funds</b>	-	-
	<u>-</u>	<u>-</u>
<b>Changes in Net Position</b>	218,690	218,690
<b>Total net position at beginning of year</b>	<u>4,096,744</u>	<u>4,096,744</u>
<b>Total net position at end of year</b>	<u>\$ 4,315,434</u>	<u>\$ 4,315,434</u>

See accompanying notes to financial statements.

**TOWN OF HAMPSTEAD, MARYLAND**  
**COMBINING STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities	
	Water	Total
Cash flows from operating activities		
Cash received from customers	\$ 1,027,770	\$ 1,027,770
Cash paid to suppliers	(285,960)	(285,960)
Cash paid to employees	(349,363)	(349,363)
Other receipts	61,536	61,536
Net cash provided by operating activities	<u>453,983</u>	<u>453,983</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(2,959,427)	(2,959,427)
Proceeds of new debt	2,285,676	2,285,676
Principal paid on debt	(41,729)	(41,729)
Interest paid on capital debt	(41,439)	(41,439)
Net cash (used) for capital and related financing activities	<u>(756,919)</u>	<u>(756,919)</u>
Cash flows from non-capital financing activities		
Purchase other asset	-	-
Transfers (to) from other funds	302,936	302,936
Net cash (used) for non-capital financing activities	<u>302,936</u>	<u>302,936</u>
Cash flows from investing activities		
Interest and dividends	-	-
Net cash provided by investing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 260,129	\$ 260,129
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	207,024	207,024
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(10,189)	(10,189)
Decrease (increase) in prepaid expense	(4,036)	(4,036)
Increase (decrease) in accounts payable	(2,010)	(2,010)
Increase (decrease) in accrued expenses	2,074	2,074
Increase (decrease) in compensated absences	991	991
Cash provided by operating activities	<u>\$ 453,983</u>	<u>\$ 453,983</u>

See accompanying notes to financial statements.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

The Town of Hampstead, Maryland was incorporated in 1888, pursuant to authority of Article XIE of the Constitution of Maryland and Article 23A of the Annotated Code of Maryland. The Town operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the Town of Hampstead conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

In evaluating how to define the Town of Hampstead, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set by the Governmental Accounting Standards Board. Component units are legally separate organizations for which the elected officials of the Town are financially accountable and a financial benefit or burden relationship exists. In addition, component units can be other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading. Based upon the application of criteria set by the Governmental Accounting Standards Board, there are no separate component units of the Town.

**Basis of Presentation – Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The Town's funds are grouped into two broad fund categories.

Governmental funds include the General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

The Proprietary Fund includes the Enterprise Fund. The Enterprise Fund is used to account for operations that are financed and operated in manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Basis of Accounting**

**Government-Wide Financial Statements**

The statement of net position and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between funds). This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues, for each segment of the business-type activities of the Town, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect costs are allocated to programs. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed. Program revenues include charges paid by the recipients of the goods or services offered by the programs, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Fund Financial Statements**

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column.

**Governmental Funds**

Town activities pertaining to general government, public safety, public works, recreation, and culture are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Revenue Recognition**

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include property taxes, franchise taxes, investment earnings, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred inflows of resources.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Expenditure Recognition**

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

**Proprietary Funds**

The Town's water utility activities are reported in the proprietary fund. The proprietary fund is accounted for using the accrual basis of accounting. This fund accounts for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled water fund utility receivables are recorded at each year-end. Operating revenues are comprised primarily of charges for services, and non-operating revenues are comprised primarily of interest and investment earnings.

The Enterprise Fund consists of the Water Fund.

**Cash and Cash Equivalents**

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition, excluding investments in the State of Maryland Local Government Investment Pool.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Investments**

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

**Receivables**

Receivables at June 30, 2016 consist of taxes, accounts (billings for user charged services, including utility services), special assessments, and accrued interest on investments. Accounts receivable are deemed collectible in full, and the allowance for doubtful accounts at June 30, 2016 is \$0.

**Inventory of Supplies**

Inventories, if any, are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds, and expenses in the proprietary type funds when used.

**Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Town as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as bridges, roads, curbs and gutters, streets, sidewalks, drainage systems and lighting systems are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated. Intangible assets are recognized if they are identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; and equipment, 2 to 20 years.



**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Deferred Outflows and Inflows of Resources**

A *deferred outflow of resources* represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a *deferred inflow of resources* represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

**Restricted Reserves**

The Town uses restricted resources first when an expense is incurred, for purposes for which both restricted and unrestricted net position is available.

**Interest Expense**

Interest is expensed as incurred except when interest is incurred during the construction period, and is capitalized as part of the cost of the asset.

**Compensated Absences**

The Town accrues unused vacation pay in the period the fund liability is incurred. Full-time employees are granted vacation leave based on the number of continuous service years. A maximum of forty-five (45) days of annual leave may be carried over to subsequent years. Upon termination, the employees will be paid the number of days accrued, not to exceed thirty (30) days, in addition to any leave earned during the calendar year. Vested annual leave is expensed in the appropriate fund. The liability of these compensated absences is recorded as long-term debt in the government-wide statements. The current portion is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as incurred.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that were used.

**Equity Classifications**

Equity is classified as net position and is displayed in three components:

*Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings, and reduced or increased by deferred inflows and outflows attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* – Consists of net position with constraints placed on their use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation and are reduced by liabilities and deferred inflows of resources related to those constraints.

*Unrestricted net position* – the remaining net position that does not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first and then unrestricted resources as needed.

**Governmental Fund Balances**

In the governmental fund financial statements, fund balances are classified as follows:

1. Non-Spendable Fund Balance – amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
2. Restricted Fund Balance – amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the Town Charter, Town Code or enabling legislation.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

3. Committed Fund Balance – amounts that can be used only for specific purposes determined by a formal action by Town Council, the Town's highest level of decision-making authority, ordinance or resolution.
4. Assigned Fund Balance – amounts that are constrained by the Town's intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Town Charter, the Town Manager and the Town Council are authorized to assign amounts for specific purposes.
5. Unassigned Fund Balance – all amounts not included in other spendable classifications.

The Town considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. The Town also considers committed fund balances to spend first when other unrestricted fund balance classifications are available for use.

**NOTE 2 – COMPLIANCE AND ACCOUNTABILITY**

**Budget Requirements, Accounting, and Reporting**

**Requirements for all funds:**

Annual budgets are adopted for all Town funds. The Town Council may subsequently amend the budget, and the budget was amended during fiscal year 2016. For day-to-day management control, expenditures may not exceed budget at the expenditure-type (i.e. personnel services, other operations and maintenance, etc.). The Town prepares an annual operating budget on a basis consistent with generally accepted accounting principles.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Deposit Policies**

Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptance, and other available bank investments, provided that approved securities are pledged to secure those funds deposited in an amount equal to the amount of those funds. In addition, the Town can invest in direct debt securities of the United States, unless such an investment is expressly prohibited by law and can invest in the State of Maryland Local Government Investment Pool.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 – DEPOSITS AND INVESTMENTS - continued**

The Town's deposits are insured or collateralized with securities held by the Town, its agent, or by the pledging financial institution's trust department, or agent in the name of the Town.

**Pooling of Cash**

The Town pools all individual fund cash balances. Income is distributed to the funds based on contribution to the pool.

**Deposits**

**Custodial credit risk** for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned, or the Town will not be able to recover collateral securities in the possession of an outside party. The Town's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by collateral valued at 102 percent of principal and accrued interest. Collateral is to be held by the Town, its agent, or by the pledging financial institution's trust department or agent, in the name of the Town.

At year-end, the carrying amounts of the Town's deposits were \$1,680,787 and the bank balances totaled \$1,791,155. Of the bank balances, the entire amount was insured by Federal Depository Insurance Corporation (FDIC), or balances exceeding FDIC limits are secured by collateral valued at 102 of principal and accrued interest. Collateral is to be held by the Town, its agent, or by the pledging financial institution's trust department or agent, in the name of the Town. At year end, the Town's bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized.

Restricted cash consisted of the following at June 30, 2016:

Deposits	\$ 3,061
Asset seizures	2,189
	<u>\$ 5,250</u>

**Investment Policies**

**Credit Risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 – DEPOSITS AND INVESTMENTS – continued**

**Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the Town's investment in a single issuer.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Town policy provides that investment collateral is held by a third party custodian with whom the Town has a current custodial agreement in the Town's name.

Generally, the Town's investing activities are managed by the Town Manager and Mayor. Investing is performed in accordance with investment policies adopted by the Town Council complying with State Statutes and the Town Charter. Town funds may be invested in: 1) U.S. Treasury obligations; 2) U.S. Government Agency and U.S. Government-sponsored instrumentalities; 3) Repurchase agreements (master repurchase agreement required); 4) Collateralized certificates of deposit (only Maryland commercial banks); 5) Bankers' acceptances from domestic banks which also include the United States affiliates of large international banks with a short-term rating of A1 from Standard and Poor's Corporation and P1 from Moody's Investor Service; 6) Money market mutual funds, highest rating by at least one recognized rating agency; 7) Commercial paper with a minimum of an A1/P1 rating by at least one recognized rating agency; 8) State of Maryland Local Government Investment Pool; 9) Bonds, notes or other obligation (with the highest rating by at least one recognized rating agency) issued by or on behalf of any state or any agency, department, county, municipal or public corporation, special district authority or political subdivision thereof, or in any fund or trust that invests only in the securities described in this paragraph.

**Investments**

The Town has invested at June 30, 2016, \$332 in the State of Maryland Local Government Investment Pool (MLGIP). The pool is under the administrative control of the State's Treasurer's Office. The Town's investments are shown by type, carrying amount, fair value, cost, and level of risk assumed in holding the various accounts. Investments are carried at cost which approximates market. The fair value of MLGIP investments is determined daily. PNC Bank is currently contracted to operate the Pool, and may invest in any instrument permitted by Section 6-222 of the State Finance and Procurement Article. The Town's fair value position in the Pool is the same as the value of pool share. In addition, there was \$481,758 invested in money market accounts and \$249,908 invested in certificates of deposit, all of which were covered by FDIC or by pledged collateral held in the Town's name.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 – DEPOSITS AND INVESTMENTS – continued**

As of June 30, 2016, the Town had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>
MLGIP	\$ 332	\$ 332	AAAm
Certificates of Deposit issued by:			
Hamilton Bank	249,908	249,908	N/A
Money Market:			
PNC	233,424	233,424	N/A
New Windsor State Bank	248,334	248,334	N/A
	<u>481,758</u>	<u>481,758</u>	
 Total Investments	 <u>\$ 731,998</u>	 <u>\$ 731,998</u>	

Note: Ratings are provided where applicable to indicate associated Credit Risk.  
N/A indicates not applicable.

**NOTE 4 - INTERFUND TRANSFERS AND BALANCES**

As of June 30, 2016 the amount due to the general fund from the water enterprise fund was \$1,134,358 of which \$1,391,513 and (\$257,155) are classified as current and non-current, respectively. The purpose of these interfund transfers is to transfer cash to and from the general fund to help fund operating activities in the water enterprise fund.

**NOTE 5 – NOTE RECEIVABLE**

In 2005, the Town loaned \$182,000 to Hampstead Village, LLC. The note is subordinated and bears compound interest at the rate of 5.01% per annum. The principal and all accrued interest is due and payable on December 1, 2045.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 – PROPERTY TAX**

Real estate and personal property taxes are levied based on the State of Maryland assessments. Property taxes include amounts levied against all real and public utility property and tangible personal property which are used in businesses located in the Town. Real property taxes are levied on the first day of July on the assessed value. When taxes are overdue and the amount exceeds \$250, a lien is placed against the property. Taxes are due and payable on the first day of July in the year for which they are levied and become overdue and in arrears on the first day of the following October. Penalties and interest are charged on any unpaid taxes. The property tax rate for fiscal year 2016 is \$.22 per \$100 of assessed value for real property, and \$.55 per \$100 of assessed value for personal property.

**NOTE 7 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Not being depreciated:				
Land	\$ 930,123	\$ -	\$ -	\$ 930,123
Construction in progress	-	-	-	-
Subtotal	930,123	-	-	930,123
Depreciable capital assets:				
Land improvements	17,297,849	297,961	-	17,595,810
Facilities	1,540,489	56,985	-	1,597,474
Equipment	1,961,211	43,135	-	2,004,346
Subtotal	20,799,549	398,081	-	21,197,630
Total capital assets	21,729,672	398,081	-	22,127,753
Accumulated depreciation:				
Land improvements	13,915,900	380,686	-	14,296,586
Facilities	421,499	31,591	-	453,090
Equipment	1,639,201	118,944	-	1,758,145
Subtotal, accumulated depreciation	15,976,600	531,221	-	16,507,821
Net capital assets	\$ 5,753,072	\$ (133,140)	\$ -	\$ 5,619,932

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 7 – CAPITAL ASSETS AND DEPRECIATION - continued**

Depreciation was charged to functions as follows:

Government activities:

General government	\$ 10,988
Public safety	63,133
Public works	391,625
Parks and recreation	65,475
Total government activities depreciation expense	<u>\$ 531,221</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Not being depreciated:				
Land	\$ 72,525	\$ -	\$ -	\$ 72,525
Construction in progress	-	-	-	-
Subtotal	<u>72,525</u>	<u>-</u>	<u>-</u>	<u>72,525</u>
Other depreciable capital assets:				
Land improvements	1,259,203	-	-	1,259,203
Facilities	6,646,641	3,100,613	-	9,747,254
Equipment	1,065,760	137,315	-	1,203,075
Subtotal	<u>8,971,604</u>	<u>3,237,928</u>	<u>-</u>	<u>12,209,532</u>
Total capital assets	<u>9,044,129</u>	<u>3,237,928</u>	<u>-</u>	<u>12,282,057</u>
Accumulated depreciation:				
Land improvements	890,185	21,075	-	911,260
Facilities	2,422,978	155,183	-	2,578,161
Equipment	723,790	30,766	-	754,556
Subtotal accumulated depreciation	<u>4,036,953</u>	<u>207,024</u>	<u>-</u>	<u>4,243,977</u>
Net capital assets	<u>\$ 5,007,176</u>	<u>\$ 3,030,904</u>	<u>\$ -</u>	<u>\$ 8,038,080</u>

Depreciation was charged as follows:

Business-type activities:

Water	\$ 207,024
Total business-type activities depreciation expense	<u>\$ 207,024</u>

The Town has no material construction commitments as of June 30, 2016.



**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 – DEFERRED COMPENSATION PLAN**

The Town established in accordance with Town Council approval a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all employees, permits them to defer a portion of their salary until future years. Employees can defer the lesser of \$17,000 or 100.00% of their includable salaries over the plan year. The Town contributes up to 20% of eligible employees' salaries to this plan. During fiscal year 2016 the Town contributed \$90,657.

Effective January 1, 1998 all amounts of compensation deferred under the plan, and all related income are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose.

In compliance with the Internal Revenue Code Section 457(g), all assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the investments designated for compensation benefits are not reflected in the Town's financial statements.

The Plan Administrator, National Retirement Solutions, Inc., is the trustee.

**NOTE 9 – RETIREMENT PLAN**

The Town has adopted GASB No. 68 – Accounting and Financial Reporting for Pensions ("GASB 68") for the year ended June 30, 2015. The Town participates in the Maryland State Law Enforcement Officers' Pension System (LEOPS) (the "System") described below and qualifies as a Participating Governmental Unit ("PGU"). The State Retirement Agency (the "Agency") is the Plan administrator and fiduciary. GASB No. 68 requires that a PGU recognize its proportionate share of the System's net pension liability (i.e., unfunded pension liability) and pension expense. The Town's proportionate share of the net pension liability is based on total System contributions and approximates \$877,667 as of the measurement date of June 30, 2015.

The Town has also adopted GASB No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No. 68. GASB No. 71 requires that contributions to the pension plan subsequent to the measurement date be recognized as a deferred outflow of resources. The Town's fiscal 2016 contribution of \$85,631 is therefore recognized as a pension-related deferred outflow of resources.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

**A. Description of Plans**

The State of Maryland identifies multiple-employer defined benefit pension plans as cost-sharing plans.

LEOPS benefits are established under the State Personnel and Pensions Article of the Annotated Code of Maryland. The plan is administered by the Maryland State Retirement Agency.

Members qualify for retirement when they meet either a) age 50 or b) 25 years of eligibility service. The full service pension allowance is equal to 2% of the member's average final compensation (AFC) multiplied by the member's years of accumulated creditable service up to 30 years. A member retiring with 30 or more years of service is limited to 60% of average final compensation.

The Maryland State Retirement Agency issues a comprehensive annual financial report that includes disclosures regarding: plan assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position. The pension plans' fiduciary net position has been determined on the same basis used by the pension plans. The pension plans' financial statements are prepared on the accrual basis of accounting and are prepared in accordance with principles generally accepted in the United States of America that apply to governmental accounting for fiduciary funds. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Actual employer contributions billed to participating governmental units for the year ending June 30, 2015 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported in the Schedule of Employer Allocations. The contributions were adjusted by increasing contributions by approximately \$251,000,000 to adjust for differences between actuarially determined contributions and actual contributions by the State of Maryland. This report can be obtained from the agency's office as follows:

State Retirement and Pension System of Maryland  
120 E. Baltimore Street, Suite 1601  
Baltimore, Maryland 21202-1600

*Funding Policy*

Obligations to contribute to the plans are under the Annotated Code of Maryland. Members of the pension plan contribute 7% of annual compensation during employment. The required contribution rate is determined on an actuarially determined basis. During the year ended June 30, 2016 the Town and its police officers contributed \$85,631 and \$35,576, respectively. The Town contributed 100% of its required contribution for the year ended June 30, 2016. For members of the pension plan, full service pension allowances equal 2% of average final compensation (AFC) up to a maximum benefit of 60% of AFC (30 years of credit).

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

Required contributions under the plans are not funded by both employee and Town contributions but are funded entirely by the Town. Contributions by the Town take place during the fiscal year and are based upon salaries for the preceding fiscal year. The Town contributions for the year ending June 30, 2016 are based on salaries for the year ending June 30, 2015. The contribution requirements of plan members of the reporting entity are established and may be amended by the Maryland State Pension System Board of Trustees, and contributions by the Town are authorized by the Town Council. The required and actual contributions for the fiscal years ending June 30<sup>th</sup> were as follows:

	Fiscal Year Ending June 30		
	2016	2015	2014
Retirement plan contributions	<u>\$ 85,631</u>	<u>\$ 89,015</u>	<u>\$ 101,014</u>

The Town contributed \$85,631 to the System for fiscal year 2016 which was actuarially determined based on statutory provisions. The Town has also recognized in Pension Expense its proportionate share of the System's deferred inflows of resources (an increase in Pension Expense) attributable to the net difference between projected and actual investment earnings on pension plan assets and its proportionate share of the System's deferred outflows of resources (a decrease in Pension Expense) attributable to changes in assumptions.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

Required disclosures aggregate for the plan:

	<u>Maryland State Pension System</u>
Total pension liability	\$ 66,571,552,000
Total fiduciary net position	45,789,840,000
Town's proportionate share of total pension liabilities	\$ 877,667
Town's proportionate share of net pension liabilities	0.00422%
Total pension assets	\$ 45,789,840,000
Measurement date of collective net pension liability	June 30, 2015
Date of actuarial valuation	June 30, 2015
Deferred outflows related to pensions	\$ 203,751
Deferred inflows related to pensions	\$ 68,453
Pension expense/expenditures for the period	\$ 9,636

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

*Actuarial assumptions*

The annual required contribution for the current year was determined as part of the actuarial valuation on July 1, 2015. The key assumptions used to perform the June 30, 2015 pension liability calculation for the System are as follows:

Actuarial Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Asset valuation method	5-year smoothed market; 20% collar
Inflation (b)	2.95% general, 3.45% wage
Salary Increases	3.45% to 11.9%, including inflation
Discount Rate (a)	7.55%
Investment Rate of Return (b)	7.55%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2006-2010.
Mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2025

- (a) Discount rate at prior measurement date was 7.65%.
- (b) There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2015 valuation:
  - a. Investment return assumption changed from 7.65% to 7.55%.
  - b. Inflation assumption changed from 2.90% to 2.70%.

The components of the net pension liability for the System as of June 30, 2015, calculated in accordance with GASB Statement No. 67, are shown in the following table:

Total Pension Liability	\$ 66,571,552,000
Plan Fiduciary Net Position	45,789,840,000
Net Pension Liability	<u>\$ 20,781,712,000</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>68.78%</u>

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

**Investments**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Pension System's Board after considering input from the investment consultant(s) and actuary(s). For each major asset class that is included in the Pension System's target asset allocation, these best estimates are summarized in the following table:

Asset Class	Target Allocations	Long-term Expected Real Rate of Return
Public Equity	35%	6.30%
Fixed income	10%	0.60%
Credit opportunity	10%	3.20%
Real return	14%	1.80%
Absolute return	10%	4.20%
Private equity	10%	7.20%
Real estate	10%	4.40%
Cash	1%	0.00%
Total	100%	

The above was the Pension System's Board of Trustee's adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2015.

**Discount Rate**

A single discount rate of 7.55% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made a rate equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

**Sensitivity of the Net Pension Liability**

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the System's net pension liability and the Town's proportionate share of the System's net pension liability, calculated using a single discount rate of 7.55%, a single discount rate that is 1-percentage point lower (i.e., 6.55%), and a single discount rate that is 1-percentage point higher (i.e., 8.55%).

	1% Lower – 6.55%	Current Rate – 7.55%	1% Higher – 8.55%
The System's Net Pension Liability	\$29,371,763,000	\$20,781,712,000	\$13,658,848,000
The Town's Proportionate Share Of Net Pension Liability	\$1,240,458	\$877,667	\$576,854

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the Town reported a liability of \$877,667 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At June 30, 2015, the Town's proportion was approximately 0.00422 percent.

For the year ended June 30, 2016, the Town recognized pension expense of \$9,636. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Changes of assumptions	\$39,541	\$ -
Net difference between projected and actual earnings on pension plan investments	77,304	68,453
Contributions subsequent to the measurement date	85,631	-
Total	\$203,751	\$68,453

The deferred outflows of resources of \$85,631 relating to contributions subsequent to the measurement date will be recognized as a reduction of the Town's net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources are being amortized over a five-year period beginning in fiscal 2016. These unamortized amounts will be ratably recognized in pension expense over the next four years.



**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – RETIREMENT PLAN - continued**

**Net Pension Liability**

The components of the Town's proportionate share of the Pension System's net pension liability as of the measurement date of June 30, 2015 were as follows:

Total Pension Liability	\$2,811,494
Plan Fiduciary Net Position	<u>1,933,827</u>
Net Pension Liability	<u>\$ 877,667</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>68.78%</u>
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**NOTE 10 – LONG-TERM DEBT**

**Governmental Activities**

On January 19, 2000, the Town entered into an interest-bearing note payable with Westminster Union Bank (now PNC), in the amount of \$800,000, for the construction of the police station. This is a general obligation debt of the Town. The interest rate on the note reset on February 18, 2014. As of February 1, 2000, the Town has been required to pay the accrued interest on the first day of each month. Consolidated payments of principal and interest began on February 1, 2001, and will continue until maturity on February 1, 2019. Monthly principal and interest payments are \$4,790. The balance outstanding as of June 30, 2016 was \$145,347 and the interest rate was 1.59%.

On October 19, 2004, the Town issued a Public Improvement Bond in the amount of \$600,000 for the purpose of road improvements. This is a general obligation debt of the Town. Interest is payable semi-annually on April 1 and October 1 of each year, commencing April 1, 2005. Principal is payable on October 1 of each year, commencing October 1, 2005. The bond bears an interest rate of 3.55% per annum on the unpaid principal balance. The balance outstanding as of June 30, 2016 was \$160,000.

On April 15, 2013, the Town issued a Public Improvement Bond in the amount of \$500,000 for the purpose of road improvements. This is a general obligation debt of the Town. Semi-annual payments of principal and interest are due March 1 and September 1 of each year, commencing September 1, 2013 and continuing through March 1, 2028. Semi-annual principal and interest payments are \$19,730. The bond bears an interest rate of 2.25% per annum on the unpaid principal balance. The balance outstanding as of June 30, 2016 was \$412,955.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 – LONG-TERM DEBT - continued**

The changes in general long-term debt as of June 30, 2016 are summarized as follows:

Lender	Beginning Balance July 1, 2015	Retired During Year	New Loans During Year	Ending Balance June 30, 2016	Amount Due Within 1 Year
PNC Bank	\$ 199,998	\$ 54,651	\$ -	\$ 145,347	\$ 55,472
Bank of America	200,000	40,000	-	160,000	40,000
PNC Bank	442,622	29,667	-	412,955	30,338
	<u>\$ 842,620</u>	<u>\$ 124,318</u>	<u>\$ -</u>	<u>\$ 718,302</u>	<u>\$ 125,810</u>

Interest costs charged to expense during the year ended June 30, 2016 was \$19,037.

**Business-Type Activities**

On June 21, 2000, the Town of Hampstead entered into a 2.6% interest-bearing note payable to the Maryland Water Quality Financing Administration in the amount of \$722,587 for the construction of a new water tower. This is a general obligation debt of the Town. Interest payments are due semi-annually beginning February 1, 2001. Consolidated principal and interest payments in the amount of \$29,604 are due each February and August with the last payment due on February 1, 2022. On August 1, 2000, the Town began paying an annual administrative fee of \$2,359. Interest costs charged to expense during the year ended June 30, 2016 was \$10,348 and \$0 was capitalized. On June 30, 2016, \$225,497 was outstanding.

In December, 2015, the Town issued a general obligation bond for public improvements in the total amount of \$2,900,000. Principal payments are due annually beginning December 2016 through 2035, with interest payments due semiannually at a rate of 4.125 per annum. At June 30, 2016, the Town had drawn \$2,285,676.

The changes in long-term debt during the year ended June 30, 2016 follows:

	Beginning Balance July 1, 2015	Retired During Year	New Loans During Year	Ending Balance June 30, 2016	Amount Due Within 1 Year
Maryland Water Quality Financing Administration	\$ 267,226	\$ 41,729	\$ -	\$ 225,497	\$ 42,814
Farmers & Merchants	-	-	2,285,676	2,285,676	58,000
	<u>\$ 267,226</u>	<u>\$ 41,729</u>	<u>\$ 2,285,676</u>	<u>\$ 2,511,173</u>	<u>\$ 100,814</u>

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 – LONG-TERM DEBT - continued**

The principal requirements to maturity of the long-term debt of all funds are as follows assuming that all funds have been drawn down:

Year(s) Ended June 30	Governmental Activities	Business-type Activities	Total
2017	\$ 125,810	\$ 100,814	\$ 226,624
2018	127,397	101,928	229,325
2019	105,228	103,070	208,298
2020	72,444	104,242	176,686
2021	33,178	105,444	138,622
2022-2023	68,625	116,000	184,625
2024-2035	185,620	2,494,000	2,679,620
	<u>\$ 718,302</u>	<u>\$ 3,125,498</u>	<u>\$ 3,843,800</u>

The interest requirements to maturity of the long-term debt of all funds are as follows:

Year(s) Ended June 30	Governmental Activities	Business-type Activities	Total
2017	\$ 16,101	\$ 125,226	\$ 141,327
2018	13,094	123,128	136,222
2019	10,095	119,594	129,689
2020	7,726	116,029	123,755
2021	6,281	112,434	118,715
2022-2023	10,294	210,540	220,834
2024-2035	11,677	1,099,354	1,111,031
	<u>\$ 75,268</u>	<u>\$ 1,906,305</u>	<u>\$ 1,981,573</u>

**NOTE 11 – CONCENTRATIONS**

The Town derives most of its revenues, except grants, from its citizens. The Town provides various services to its residents. The Town is located in northern Carroll County, Maryland. Credit is granted to its residents for back taxes and water bills. The Town may place a lien on any property associated with taxes and water services.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 12 – RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters.

The Town has an insurance agreement with the Local Government Insurance Trust (LGIT), a public entity risk pool. LGIT provides the Town's general, automobile, employee, health, police and public officials' legal liability insurance coverage. The town's commercial insurance company provides property coverage.

This is a total risk and cost sharing pool for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfers from the Trust's capital and surplus accounts, the Trustees shall determine a method to fund the deficit. The Trust agreement empowers the Trustees to assess an additional premium to each deficit-year participant. Debt issues could also be used to fund a deficit.

Premiums are charged to the appropriate Town's General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments during the year ended June 30, 2016, and the amount of settlements has not exceeded coverage for each of the past three years.

**NOTE 13 – COMPTROLLER OF THE TREASURY OF MARYLAND V. WYNNE**

In 2015, in *Comptroller of the Treasury of Maryland v. Wynne*, the Supreme Court invalidated a portion of Maryland's personal income tax scheme after determining that it inherently burdened the earnings of individuals who resided in one state but earned income in another.

In response, Maryland has enacted corrective legislation allowing a credit for Maryland residents against personal income tax for income taxed by other states. The Court had ruled that the failure of Maryland law to allow such a credit rendered Maryland's personal income tax scheme unconstitutional.

As of June 2016, the Comptroller's Office estimates that the fiscal impact of the ruling on the Town will be approximately \$5,806 of refunds for prior years' taxes, and a minimal reduction each year going forward. As taxpayers have three years to amend their returns, this number could increase.

The estimated amount of refunds to be paid has been recorded as a contingency loss on the Statement of Activities, and as a noncurrent liability on the Statement of Net Position, as the Town will not be required to start reimbursing the State until the fourth quarter of fiscal year 2019, and will be repaid over a period of five years as a reduction in income tax distribution.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

**Grants**

The Town receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the Town is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the Town's management, no material refunds will be required as a result of disallowed expenditures.

**NOTE 15 – DEFICIT OF UNRESTRICTED NET POSITION**

**Business-Type Activities**

For the year ended June 30, 2016 the Town has a deficit of unrestricted net position of (\$1,211,473). Management anticipates increasing water rates and updating impact fees to increase revenue to close the deficit.

**NOTE 15 – FUND BALANCE REPORTING**

Fund balances for the Town's governmental funds consisted of the following as of June 30, 2016:

**Non-Spendable Fund Balance**

The non-spendable fund balance on the general fund is made up of prepaid expenses totaling \$65,422 that is not in spendable form.

**Unassigned Fund Balance**

Unassigned fund balances total \$3,788,308.

**TOWN OF HAMPSTEAD, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 16 – NEW ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following statements:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, issued June 2015, effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, effective for financial statements for fiscal years beginning after June 15, 2017.

Statement No. 77, *Tax Abatement Disclosures*, issued August 2015, effective for financial statements for fiscal years beginning after December 15, 2015.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, issued December 2015, effective for financial statements for fiscal years beginning after December 15, 2015.

Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, issued March 2016, effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016, effective for financial statements for fiscal years beginning after December 15, 2016.

Statement No. 82, *Pension Issues – an amendment of GASB States No. 67, No. 68, and No. 73*, issued March 2016, effective for financial statements for fiscal years beginning after June 15, 2016.

The Town will implement these statements as necessary as of their effective dates. While the Town is still in the process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the Town.

**NOTE 18 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 10, 2016, the date that the financial statements were available to be issued. No additional subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.

**TOWN OF HAMPSTEAD, MARYLAND  
SCHEDULES OF REQUIRED PENSION-RELATED  
SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
JUNE 30, 2016**

	FY 2015
Town's proportion (%) of collective net pension liability	.00422
Town's proportionate share (\$) of collective net pension liability	\$ 877,667
Town's covered-employee payroll(\$)	\$ 425,801
Town's proportionate share of collective net pension liability as a percentage of its covered-employee payroll	206.12%
Pension plan's fiduciary net position as a percentage of the total pension liability	68.78%

**SCHEDULE OF THE TOWN'S PENSION PLAN CONTRIBUTIONS  
Last 10 Fiscal Years**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 85,631	\$ 89,015	\$ 101,014							
Contributions in relation to the contractually required contribution	85,631	89,015	101,014							
Contribution deficiency (excess)	-	-	-							
Town's covered-employee payroll	425,801	457,752	476,649							
Contributions as a percentage of covered-employee payroll	20.1%	19.4%	21.2%							

The above schedules are presented to illustrate the requirement for specific information for 10 years; however, until a full 10-year trend is compiled, information is only presented for those years for which information is available.

**TOWN OF HAMPSTEAD, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Governmental Funds</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
Revenues				
Income taxes	\$ 735,000	\$ 735,000	\$ 832,939	\$ 97,939
Property taxes	1,234,274	1,234,274	1,299,575	65,301
Other taxes	34,100	34,100	36,107	2,007
Fines, licenses and permits	53,728	53,728	60,009	6,281
Interest and investment earnings	13,175	13,175	28,477	15,302
Charges for services	39,708	39,708	63,175	23,467
Grants and contributions	633,354	633,354	643,239	9,885
Other revenues	180,726	180,726	231,688	50,962
Total Revenues	<u>\$ 2,924,065</u>	<u>\$ 2,924,065</u>	<u>\$ 3,195,209</u>	<u>\$ 271,144</u>
Expenditures				
General government	\$ 261,127	\$ 276,127	\$ 297,140	\$ (21,013)
Public safety	972,685	972,685	924,662	48,023
Public works	810,031	860,031	849,421	10,610
Recreation and culture	101,916	101,916	96,384	5,532
Capital outlays	554,861	554,861	398,081	156,780
Miscellaneous	427,189	427,189	398,946	28,243
Debt service - principal	124,191	124,191	124,318	(127)
Debt service - interest	19,139	19,139	19,037	102
Total Expenditures	<u>\$ 3,271,139</u>	<u>\$ 3,336,139</u>	<u>\$ 3,107,989</u>	<u>\$ 228,150</u>